

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 /082 W
-----065532 251654Z /47

R 222057Z JUL 77
FM AMCONSUL MONTREAL
TO SECSTATE WASHDC 9246
INFO AMEMBASSY OTTAWA
AMCONSUL QUEBEC
AMCONSUL TORONTO BY POUCH

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E. O. 11652: N/A
TAGS: EFIN, CA
SUBJ: HYDRO-QUEBEC ACTIVE IN FINANCIAL MARKETS

SUMMARY: WITHIN LAST WEEK, HYDRO-QUEBEC HAS COMPLETED TWO BOND ISSUES IN EUROPEAN AND CANADIAN MARKETS, AND IS NOW COMPLETING ARRANGEMENTS FOR PRIVATE PLACEMENT IN US. EURO-BOND ISSUE WENT EXTREMELY WELL, BUT HYDRO IS ANXIOUS TO RE-ESTABLISH ITS CREDENTIALS IN NEW YORK MARKET. AFTER DRAGGING, RECEPTION FOR US PLACEMENT IS REPORTED TO HAVE PICKED UP, AND HYDRO HOPES TO WIND UP WITH ORDERS APPROXIMATING \$250 MILLION. FOR CURRENT YEAR, HYDRO HAS NOW FINANCED \$421 MILLION OF TARGETED \$1 BILLION IN FINANCING. NEGOTIATIONS NOW UNDERWAY WILL BRING TOTAL TO ABOUT \$950 MILLION, WITH POSSIBILITY OF PUBLIC ISSUE IN US LATER IN YEAR. END SUMMARY.

EUROPEAN BOND ISSUE OVER-SUBSCRIBED

1. OF TWO ISSUES COMPLETED WITHIN LAST WEEK, KYDRO-QUEBEC WAS MOST HAPPY WITH EURO-BOND ISSUE OFFERED JULY 18. ISSUE WAS FOR \$125 MILLION, WITH 15-YEAR MATURITY, CARRYING 9 PERCENT COUPON.
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IT WAS LARGEST LONG-TERM ISSUE EVER PLACED IN EURO-BOND MARKET. WITH WEAKNESS IN US DOLLAR AND UNPREDICTABILITY OF EUROPEAN DOLLAR MARKET, HYDRO AND UNDER-WRITERS WERE CONCERNED ABOUT RECEPTION FOR ISSUE, REMEMBERING ATTEMPTED PLACEMENT TWO MONTHS AGO (MONTREAL 754) WHEN \$50 MILLION SIX-YEAR ISSUE HAD TO BE PULLED BACK DUE SUDDEN DETERIORATION IN EURO-DOLLAR MARKET. HYDRO HAD WINNER THIS TIME, HOWEVER, AS ORDERS FOR \$125 MILLION ISSUE

TOTALED \$225 MILLION BY CLOSING DATE. MOREOVER, ISSUE HAS PERFORMED WELL IN SECONDARY MARKET. AFTER OPENING IN SECONDARY MARKET AT 99 -- NORMAL FOR EURO-BOND SECONDARY MARKET WHERE ISSUES USUALLY OPEN 1 TO 1 1/2 POINTS BELOW OFFERING -- ISSUE MOVED UP RAPIDLY AND IS NOW TRADING AT 99 1/2 - PAR, WITH SALES REPORTED LIGHT.

CANADIAN ISSUE MOVES SLOWER

2. HYDRO ISSUE FOR CANADIAN MARKET TOTALED \$125 MILLION, WITH 9.75 PERCENT COUPON, PRICED TO YIELD 9.86 PERCENT. TERM WAS 23 YEARS. TOTAL OF \$55 MILLION TAKEN BY QUEBEC'S CAISSE DE DEPOT AND \$5 MILLION BY HYDRO PENSION FUND. PUBLIC PORTION OF ISSUE, \$60 MILLION, MOVED SLOWLY, BOTH BECAUSE OF SIZE AND ONLY SLIGHT PREMIUM OVER HYDRO ISSUE SOLD IN CANADIAN MARKET IN MAY (MONTREAL 754). SOME \$5 MILLION TO \$10 MILLION ARE STILL REPORTED TO BE IN HAND OF DEALERS.

US BUYERS CAUTIOUS, BUT INTEREST PICKING UP

3. SUCCESS OF PENDING PRIVATE PLACEMENT IN US MARKET IS OF GREAT IMPORTANCE TO HYDRO, WHICH HAS NOT GONE ON US MARKET SINCE ELECTION OF PARTI QUEBECOIS. PRIOR TO NEGOTIATIONS FOR PLACEMENT OF CURRENT ISSUE, HYDRO RE-ENTERED US COMMERCIAL PAPER MARKET, FOR ABOUT \$20 MILLION, IN ORDER TO RE-GAIN FEEL FOR MARKET AND RE-INTRODUCE HYDRO NAME. TERMS OF NEW 20-25 YEAR ISSUE FOR LIMITED OFFICIAL USE

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PRIVATE PLACEMENT WERE MADE ATTRACTIVE, WITH COUPON OF 9 1/4 PERCENT THAT HYDRO OFFICIALS CALL A GIVE-AWAY. REACTION IN US MARKET HAS NEVERTHELESS BEEN MIXED.

4. HYDRO OFFICIALS TELL US THAT PLACEMENT OF ISSUE WITH TWO LEAD INSTITUTIONS HAD DRAGGED, BUT HAS PICKED UP IN LAST DAY, WITH ONE OF INSTITUTIONS AGREEING TO GO AHEAD. ORDERS ARE NOW UP TO \$200 MILLION, WITH ADDITIONAL \$20 MILLION LIKELY TODAY. BEFORE CLOSING BOOKS, HYDRO HOPES TO BE ABLE TO PLACE TOTAL OF AROUND \$250 MILLION. LEAD INSTITUTION WHICH BACKED OUT WAS PURCHASER OF \$50 MILLION ISSUE LAST NOVEMBER, AND HOLDS OVER \$200 MILLION IN HYDRO BONDS, WHICH THEY EVIDENTLY THOUGHT WAS ENOUGH FOR TIME-BEING. THERE ARE OTHER INSTITUTIONS THAT APPARENTLY WANT IN ON TRANSACTION, ATTRACTED BY LIBERAL YIELD, BUT PROBLEM IS FINDING BUYERS WILLING TO TAKE SIZEABLE CHUNKS. HYDRO OFFICIALS REPORT THEY DO NOT WANT TO BE LIKE ONTARIO-HYDRO WHICH TOOK ORDERS FOR AS LITTLE AS \$1 MILLION LOTS DURING LAST OFFERING IN US MARKET.

FINANCING PROGRAM FOR YEAR IS IN GOOD SHAPE

5. NOT COUNTING PENDING US ISSUE, HYDRO HAS NOW COMPLETED

\$421 MILLION OF TARGETTED \$1 BILLION IN FINANCING FOR CURRENT YEAR. NEGOTIATIONS ARE NOW UNDERWAY FOR ADDITIONAL ISSUES IN GERMANY, SWITZERLAND AND JAPAN FOR ANOTHER \$300 MILLION. ASSUMING CURRENT US PLACEMENT COMES IN AT ABOUT \$250 MILLION, HYDRO-QUEBEC WITHIN NEXT COUPLE OF MONTHS WILL HAVE REACHED TOTAL OF ABOUT \$970 MILLION IN FINANCING. LATER IN YEAR, HYDRO HOPES TO TRY PUBLIC ISSUE IN US FOR ABOUT \$100 MILLION.

US DOLLAR REVENUES IMPORTANT TO SERVICE HYDRO DEBT

6. A LITTLE OVER 60 PERCENT OF HYDRO DEBT IS NOW IN US DOLLARS. LAST YEAR HYDRO EXPORTED 1.5 PERCENT OF ITS SALES TO US. UNDER THE PASNY CONTRACT WITH NEW YORK, SALES TO US WILL AMOUNT NEXT YEAR TO ABOUT 4.5 PERCENT OF HYDRO'S SALES. GIVEN HEAVY LIMITED OFFICIAL USE

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PROPORTION OF US DOLLAR DEBT, HYDRO FINANCIAL MANAGERS ARE ANXIOUS TO SEE LARGER US DOLLAR REVENUES. FOR REASONS THAT HYDRO FINANCIAL OFFICIALS ARE AT LOSS TO EXPLAIN, FIRST CONTRACTS WITH PASNY FOR SALE OF POWER CALLED FOR PAYMENT IN CANADIAN DOLLARS. FUTURE CONTRACTS, THEY SAY, WILL REQUIRE PAYMENT IN US DOLLARS.

7. SEPTTEL FOLLOWS ON PROVINCIAL AND MUNICIPAL FINANCING. HARPER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Decaption Note:
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Disposition Approved on Date:
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Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Handling Restrictions: n/a
Image Path:
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Litigation Codes:
Litigation History:
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Message ID: 38c25b65-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1776898
Secure: OPEN
Status: NATIVE
Subject: HYDRO-QUEBEC ACTIVE IN FINANCIAL MARKETS SUMMARY: WITHIN LAST WEEK, HYDRO-QUEBEC HAS COMPLETED TWO BOND ISSUES IN EUROPEAN AND CANADIAN MARKETS, AND IS NO
TAGS: EFIN, CA, HYDRO-QUEBEC
To: STATE
Type: TE
vdkgvkey: odbcr://SAS/SAS.dbo.SAS_Docs/38c25b65-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009